

# FX DRIFT ON THE TIDES OF TRADE SENTIMENT

MORNING REPORT: 14TH MAY 2019



## GBP

Sterling was stuck in the middle of the G10 currency board yesterday as a lack of data released along with a stagnant Brexit process meant the pound followed suit against the US dollar move. Theresa May's cabinet will meet this morning to look at alternatives to the current cross-party deal, but her cabinet and party still remain deeply divided. The Times leads with the story that "the Prime Minister's next Brexit move is likely to be her last" amid heightened speculation that Tory backbench MPs are beginning to get the ousting process underway. The Times piece is based around a letter submitted to the PM from ex-cabinet ministers urging

her to avoid a customs deal in fear of losing the "loyal middle" of her party. Regardless, much of today's meeting will focus around bringing forward parts of the Withdrawal Agreement, which includes the contentious Irish backstop, in an attempt to mitigate the consequences of no-deal. Meanwhile, April's labour market data will be released at 09:30 BST with Average Weekly Earnings growth expected to fall to 3.4%.

## EUR

The movements on euro crosses could hardly have been more exemplary of a market driven by risk sentiment, with EUR incurring strong losses against haven currencies like JPY and CHF, but having its revenge against risk-sensitive currencies like CAD, NOK and AUD. The absence of data coming out from the Eurozone then made this effect even more pronounced, as no domestic data was available to provide a counterweight. The German ZEW Economic Sentiment and Industrial Production will be out at 10:00 BST, but beware, global risk sentiment will likely be a bigger driver for the euro today.

## USD

The greenback was generally bid against everything except havens yesterday as markets convulsed with risk aversion and equities were routed globally. This morning has seen a partial improvement in risk appetite and the greenback has given back some of yesterday's gains versus certain G10 currencies while gaining ground against JPY. Trade tensions remain the single driver of markets: China announced details of \$60bn worth of retaliatory tariffs yesterday, while US authorities released the details of a further \$300 billion worth of goods tariffs. This latest tranche, if implemented would more than double the total value of Chinese imports subject to tariffs and present a severe risk to Chinese growth as well as a major escalation in tension. This morning's partial improvement in risk appetite came after some optimistic comments from US President Donald Trump, speaking at an Iftar meal at the White House to mark the holy month of Ramadan. Trump said that the outcome of the current round of trade talks will be known in "about three or four weeks", and that he had "a feeling it's going to be very successful". European equity markets are in green, for now, suggesting that the comments gave some hope that the threatened escalation of tariffs may be delayed until the outcome of the latest talks is known.

## CAD

The loonie was under pressure from many angles yesterday, as flaring up trade tensions drove oil prices down, while Canada, being an open economy, suffers from the potential fewer trading opportunities in the future. Against this background, some may argue, CAD is holding quite well as didn't lose much ground since oil prices slumped around 8% since their peak in the last third of April and trade woes suddenly reappeared on the agenda at the start of May.